



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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May 11, 2007

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS-1
P.O. Box 4025
Sacramento, CA 95812-4025

Dear Mr. Leary:

Final Audit Report—California Used Oil Recycling Fund

Enclosed is our final audit report on the California Used Oil Recycling Fund as of June 30, 2006. The Department of Finance, Office of State Audits and Evaluations (Finance), performed this audit under an interagency agreement with the California Integrated Waste Management Board (Board). The scope of work included a compliance and financial review of the Board's financial statements.

The Board's response to our Finding and Recommendation is included in this report. We believe our recommendation will help the Board improve fiscal accountability. In accordance with Finance's policy of increased transparency, this report will be placed on the Finance website.

We appreciate the cooperation and assistance of Board staff and management during our audit. If you have any questions, please contact Frances Parmelee, Manager, or Rick Cervantes, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Diana L. Ducay, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Tom Estes, Deputy Director, Administration and Finance Division, California Integrated Waste Management Board
Ms. Julie Arico, Accounting Administrator I, Administration and Finance Division, California Integrated Waste Management Board
Mr. Roger Ikemoto, Grants and Audits Unit Supervisor, Administration and Finance Division, California Integrated Waste Management Board

A F_{INANCIAL} S_{TATEMENT} A_{UDIT}

California Integrated Waste Management Board California Used Oil Recycling Fund For the Fiscal Year Ended June 30, 2006

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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The Department of Finance, Office of State Audits and Evaluations, performed this audit under an interagency agreement with the California Integrated Waste Management Board (Board). The purpose was to audit the *Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance* of the California Used Oil Recycling Fund (Fund) for the fiscal year ended June 30, 2006. The audit objectives were to:

- Express an opinion on the financial statements based on our audit, conducted in accordance with standards applicable to financial audits contained in *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States.
- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental fund accounting and reporting.
- As necessary, report on internal control weaknesses, as well as noncompliance with applicable laws and regulations, and provide recommendations for improving the controls over the Fund's operations.

This report is intended for the information and use of the Board, and is not intended to be and should not be used by anyone other than the specified party. However, the report is a matter of public record and its distribution is not limited.

STAFF:

Susan M. Botkin, CGFM
Manager

Rick Cervantes, CPA
Supervisor

Agnieszka Yeager



INDEPENDENT AUDITOR'S REPORT

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS-1
P.O. Box 4025
Sacramento, CA 95812-4025

We have audited the accompanying *Balance Sheet* as of June 30, 2006, and the related *Statement of Revenue, Expenditures, and Changes in Fund Balance* of the California Used Oil Recycling Fund (Fund) for the year then ended. These financial statements are the responsibility of the California Integrated Waste Management Board's (Board) management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by GAGAS Statement No. 3. Both the audited entity and the Department of Finance, of which the Office of State Audits and Evaluations is a unit, are part of the Executive Branch, which GAGAS considers an impairment to independence. Also, as required by various statutes within the California Government Code, the Department of Finance's other units are mandated to perform certain management and accounting functions. These activities impair independence. Although the Department of Finance is statutorily obligated to perform these specific activities, we believe that sufficient safeguards and divisions of responsibility exist that would enable the reader of this report to rely on the information contained herein.

As discussed in Note 1A, the financial statements present only the Fund and are not intended to present the financial position of the Board or the State of California as of June 30, 2006, or changes in their financial position for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2006, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7, the Board changed its method of accounting for prepaid grants in fiscal year ended June 30, 2006. As a result, Total Assets and Total Fund Balance are not comparable to the prior year's (June 30, 2005) balances. A prior period adjustment of \$8.8 million has been made to the fund balance to correct the prior period accounting error.

Compliance

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Generally Accepted Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Board's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the *Finding and Recommendation* section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Board, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

February 8, 2007

BALANCE SHEET

**California Integrated Waste Management Board
California Used Oil Recycling Fund
Balance Sheet
As of June 30, 2006**

Assets

Cash and Pooled Investments (Note 1E)	\$ 18,447,841
Receivables (net)	5,417,746
Due from Other Funds (Note 2)	200,859
Due from Other Governments	51,060
Prepayments to Other Governments (Note 1I)	<u>9,642,439</u>
Total Assets	<u>\$ 33,759,945</u>

Liabilities

Accounts Payable	\$ 1,176,893
Claims Filed	631,737
Due to Other Funds (Note 2)	652,894
Due to Other Governments	<u>56,148</u>
Total Liabilities	<u>2,517,672</u>

Fund Balance

Designated for Contingencies (Note 3A)	1,000,000
Reserved for Encumbrances (Note 3B)	17,447,630
Reserved for Prepaid Items (Note 1I)	9,642,439
Unreserved, Undesignated	<u>3,152,204</u>
Total Fund Balance	<u>31,242,273</u>

Total Liabilities and Fund Balance **\$ 33,759,945**

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE

**California Integrated Waste Management Board
California Used Oil Recycling Fund
Statement of Revenue, Expenditures, and Change in Fund Balance
For the Fiscal Year Ended June 30, 2006**

Revenue	
Fees	\$ 19,893,103
Interest	608,801
Miscellaneous	<u>27,093</u>
Total Revenue	<u>20,528,997</u>
Expenditures	
Operating Expenditures	
Incentive Payments	3,693,714
External Consultant and Professional Services	587,750
Inter-departmental Consultant and Professional Services	628,633
Local Government Grants	2,662,928
Administrative Support (Note 4)	<u>3,792,180</u>
Total Expenditures	<u>11,365,205</u>
Excess of Revenue Over Expenditures	9,163,792
Other Financing Uses and Sources	
Operating Transfer Out (Note 5)	(333,000)
Refund to Reverted Appropriations	816
Fund Balance Adjustment (Note 6)	<u>(483,699)</u>
Special and Extraordinary Items	
Prior Period Adjustments (Note 7)	<u>8,776,638</u>
Net Change in Fund Balance	17,124,547
Fund Balance Beginning of Year	<u>14,117,726</u>
Fund Balance End of Year	<u>\$ 31,242,273</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

California Integrated Waste Management Board California Used Oil Recycling Fund Notes to the Financial Statements For the Fiscal Year Ended June 30, 2006

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The California Used Oil Recycling Fund (Fund) was created with passage of the California Used Oil Recycling Enhancement Act of 1991 (Act). State law places administration of the Act with the California Integrated Waste Management Board (Board). Pursuant to the Act, every oil manufacturer who sells, or offers to sell, lubricating or industrial oil in California shall report the amount of lubricating or industrial oil sold or transferred in the state. In addition, all used oil haulers are required to report to the Board the amount of used oil transported, the location to which it is transported, and the source of the used oil. Further, each used oil recycling facility is required to report to the Board the amount of used oil received, and the amount of recycled oil produced. Amounts received by the Board as fees from oil manufacturers are deposited into the Fund.

The Act authorizes the Board to pay a recycling incentive to certified used oil collection centers, registered industrial generators, and registered curbside collection programs for used lubricating oil collected from the public, or generated by certified used oil collection centers or industrial generators, and transported to qualifying used oil recycling facilities. In addition, the Board can pay a recycling incentive to an electric utility for used oil consumed by the utility for electrical generation.

The Act stipulates that all monies deposited in the Fund shall be used to pay recycling incentives and the necessary costs to administer the program, to provide a reserve for contingencies, and to make available block grants for the implementation of local used oil collection programs.

Pursuant to the Act, the balance of monies deposited in the Fund remaining after the payment of all expenditures, except as noted above, shall be available to the Board for specified uses. The Act limits the use of the remaining balance to expenditures for the development and

implementation of an information and education program for the promotion of alternatives to the illegal disposal of used oil, for certain types of grants and loans, and to fund the disposal of used oil that is contaminated by excessive hazardous materials and collected by a certified used oil collection center.

The Fund is shared between the Board, the Department of Toxic Substances (DTSC), and the California Environmental Protection Agency (Cal/EPA). The Legislature makes appropriations to DTSC and Cal/EPA from the Fund for used oil-recycling activities administered by those agencies. The financial statements present information of the financial activities of the Fund only, and do not represent all of the financial activities of the Board taken as a whole, or of the State of California.

B. Basis of Presentation-Fund Accounting

The Fund is a special revenue fund used to account for revenue legally restricted to expenditure for specified purposes. The financial statements are presented in accordance with generally accepted accounting principles.

C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using a current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Under the modified accrual basis of accounting, revenue are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

D. Budget and Budgetary Control

The accounting policies of the Board conform to the State Administrative Manual (SAM) based on the state's budgetary provisions. Program funds are continuously appropriated without regard to fiscal year. Management is responsible for exercising budgetary control to ensure that available amounts are not overspent. In addition, the State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

E. Cash and Pooled Investments

Cash in excess of current needs is deposited in the state's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. The Surplus Money Investment Fund (SMIF) is managed by the Pooled Money Investment Board (PMIB). State statutes, bond resolutions, and investment policy resolutions allow the state to invest in government securities, certificates

of deposit, banker's acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments. The reported amount represents an equity share in the balance of the investment pool. Since there are no individually owned investments, the deposit in SMIF is not reported by type of investment.

F. Revenue Susceptible to Accrual

Proceeds received by the Fund from both fees and investment income are susceptible to accrual. Revenue are accrued if the underlying transaction has occurred as of the last day of the fiscal year and the due date for the revenue is within 12 months of the end of the fiscal year.

G. Compensated Absences

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the *State of California Comprehensive Annual Financial Report*.

H. Retirement Plan

Regular employees of the Board are members of the Public Employees Retirement System (PERS), which is a defined benefit contributory retirement plan. Employer contributions to PERS are actuarially determined under a program whereby contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The Fund's share of retirement contributions is included in the cost of personal services. For further information, refer to the annual single audit of the State of California.

I. Prepaid Items

Payments made to grantees for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items. A portion of the fund balance equal to the prepaid items has been reserved to indicate that it is not available for appropriation.

NOTE 2 Due To/From Other Funds

The Due From Other Funds account represents the amounts due from other state funds to the Fund; the Due To Other Funds account represents the amounts due from the Fund to other state funds. The balances of Due From and

Due To Other Funds accounts include the following:

Due From Other Funds:	
Surplus Money Investment Fund	<u>\$ 200,859</u>
Due To Other Funds:	
General Fund	\$ 1,588
Board Of Equalization (Use Tax)	16
Integrated Waste Management Account	611,955
State Compensation Insurance Fund	1,123
Hazard Waste Control Account	33,754
Motor Vehicle Account	<u>4,458</u>
Total Due To Other Funds	<u>\$ 652,894</u>

NOTE 3 Fund Balance

A. Designated for Contingencies

The Act provides for a reserve for general, unspecified contingencies not to exceed \$1 million. The designated amount included in the unreserved portion of the fund balance has been reported at the maximum.

B. Reserved for Encumbrances

The reserved for encumbrance fund balance represent the Fund's resources that have been legally committed for grants, contracts, and other obligations. The payment of these commitments is contingent upon the performance of grant and contract services or the delivery of goods. The encumbrances as of June 30, 2006, include the following:

External Consultant and Professional Services	\$ 2,456,827
Inter-departmental Consultant and Professional Services	470,696
Local Government Grants	14,412,371
Administrative Support	<u>107,736</u>
Total Encumbrances	<u>\$ 17,447,630</u>

C. Unreserved, Undesignated

The unreserved and undesignated fund balances represent the Fund's resources currently available for future spending.

NOTE 4 Administrative Support Expenditures

Administrative support expenditure balances include the following:

Salaries	\$ 1,625,780
Staff Benefits	601,188
General	25,527
Printing	43,556
Communication	39,311
Postage	1,257
Travel	36,437
Training	5,671
Facilities Operations	298,697
Departmental Services	614,266
Data Processing	43,402
Central Administrative Services	450,976
Equipment	693
Other	<u>5,419</u>
Total Administrative Support	<u>\$ 3,792,180</u>

NOTE 5 Operating Transfers

Legally authorized transfers between state funds occurring during the current period are reported as Operating Transfers, and are accounted for as reductions or increases in residual equity. The Board, pursuant to paragraph (2)(A) of subdivision (c) of Section 48100 of the Public Resources Code, and as authorized by the Legislature in the Budget Act of 2005-06, executed an Operating Transfer of \$333,000 to the Farm and Ranch Solid Waste Cleanup and Abatement Account.

NOTE 6 Fund Balance Adjustment

In accordance with SAM Sections 10403 and 10464, shared funds, such as this Fund, which is explained in Note 1A, do not show the cash balance in the State Treasury. Instead, the net remittances or disbursements from the particular fund in the State Treasury are shown. At the end of the fiscal year, the net remittance and net disbursement balances are applied to the fund balance. The net remittances and disbursements as of June 30, 2006 for each agency were as follows:

Board	\$ 765,444
DTSC	(257,819)
Cal/EPA	<u>(23,926)</u>
Total	<u>\$ 483,699</u>

NOTE 7 Prior Period Adjustments

In the prior year audit report, prepaid grants were not reported as assets and as reserved fund balance. Effective in fiscal year ended June 30, 2006, the Board reports its prepaid grants as advances, as required by GASB 33. This correction of the accounting error resulted in an increase in Total Assets and in Total Fund

Balance of \$9,642,439. The cumulative effect of this correction increased Net Change In Fund Balance by \$8,776,638.

Prepaid assets as of 6/30/06	\$ 9,642,439
Less: Prepayments issued in 2005-06	<u>(865,801)</u>
Net prior period adjustment	<u>\$ 8,776,638</u>

Starting with cycle 11 of the Used Oil Block Grants (UBG) awarded in 2005-06, only grantees awarded \$20,000 and less are eligible for a grant prepayment. It is estimated that grant prepayments will be reduced significantly in the future years due to this new policy.

FINDING AND RECOMMENDATION

During our audit of the California Used Oil Recycling Fund (Fund), we noted a matter concerning the accounting controls that we consider a reportable condition. If left uncorrected, this condition could compromise the accuracy of the Fund's financial statements.

FINDING Misclassification and Duplicate Recording of Assets

Condition: The Board did not properly record, review, or report prepaid grants. Six prepaid grants totaling \$61,819 were incorrectly classified as prepayments. The six grants had expired and should have been recorded as accounts receivable. Also, two prepaid grants totaling \$29,903 were recorded as accounts receivable and as prepayment, resulting in duplicate recording of assets.

These errors could result in ineffective account receivable collections as well as an overstatement of assets.

Criteria: State Administrative Manual (SAM) Section 20050 states that internal accounting controls comprise the methods and procedures directly associated with assuring the reliability of accounting data. It identifies "a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenue, and expenditures" as one of the elements of a satisfactory system of internal accounting controls.

Additionally, SAM Section 8776.6 requires that each department develops collection procedures to ensure prompt follow-up on receivables.

Recommendation: Accurately record and report accounts receivable and prepayments. Develop procedures to ensure proper classification of outstanding prepaid grants.

RESPONSE



LINDA S. ADAMS
SECRETARY FOR ENVIRONMENTAL
PROTECTION

CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD



ARNOLD SCHWARZBERG
GOVERNOR

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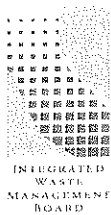
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April 25, 2007

Ms. Diana Ducay, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, California 95814

Dear Ms. Ducay:

On April 13, 2007, the Department of Finance (DOF), Office of State Audits and Evaluations, upon completion of work performed under an interagency agreement with the California Integrated Waste Management Board, (CIWMB) issued a draft audit report on the California Used Oil Recycling Fund as of June 30, 2006. This letter is in response to the draft audit finding.

Finding - Misclassification and Duplicate Recording of Assets

The Department of Finance correctly reported a misclassification of six prepaid grants and duplicate recording of assets for two grants. The CIWMB's Accounting Office has developed procedures to accurately record and report accounts receivables and prepayments to ensure proper classification of outstanding prepaid grants.

We appreciate the opportunity to respond to the findings in the audit. If you have any questions, or require additional information please contact me at (916) 341-6090.

Sincerely,

Original signed by:

Tom Estes
Deputy Director
Administration and Finance Division